Nova Scotia Municipal Finance Corporation

24th Annual Report
2004

Nova Scotia

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Message from the Chair

As Chair of the Nova Scotia Municipal Finance Corporation it is my pleasure to present our 24th annual report for the 2003-04 fiscal year.

The past fiscal year has been an interesting one in capital markets. Government of Canada two-year bench mark bonds hit a low of 2.22 per cent with an average price of 3.03 per cent, while ten-year bench mark bonds low for the year was 4.03 per cent with an average price of 4.67 per cent. This year saw the Corporation receive the lowest all-in-cost of funds in its history, and these rates were passed on to our 32 clients that we issued debentures on behalf of.

The Corporation had a successful year in 2003–04. During the course of the year the Corporation placed two debenture issues for over $73 million, and ended the fiscal year with a net income of $42,720.

The Board of Directors continues to focus on service to its clients. During the upcoming fiscal year the Corporation will be conducting an evaluation of its services and programs to ensure that the goals and objectives of the Corporation match those of our clients. The results of the evaluation will help determine our long-term strategic direction.

The Corporation is also broadening its base from focussing primarily on capital financing to building financial management capacity in local governments across Nova Scotia. This is being achieved in partnership with the Association of Municipal Administrators of Nova Scotia and the provincial department of Service Nova Scotia and Municipal Relations.

I would like to thank the Board members, the staff of the Corporation, and the staff of the provincial Departments of Service Nova Scotia and Municipal Relations, Finance, and Justice for their advice and assistance throughout the year.

Brian Stonehouse, PEng
Chair

How the Corporation Functions

Authority

The Nova Scotia Municipal Finance Corporation was established by an act of the Legislature of the Province of Nova Scotia in 1979, being Chapter 301 of the Revised Statutes of Nova Scotia, 1989. The legislative authority for the Corporation can be found in the Municipal Finance Corporation Act.

Mission and Purpose

The mission of the Corporation is to provide financing to its clients for approved capital projects at competitive rates, within acceptable risk parameters, and to provide advice and assistance to clients regarding financial management.

The Corporation was created with the objective of providing financial assistance for municipalities, municipal enterprises, school boards, and hospitals through a centralized borrowing authority. The Corporation fulfils its purpose by issuing pooled debenture issues. Pooling of borrowing requirements eliminates the need for individual municipalities to negotiate and administer their own debenture issues.

All municipalities and municipal enterprises must finance, while school boards and hospitals may finance, their external capital requirements through the Corporation. Exceptions exist for projects that are financed through short-term financing, and for certain projects for which funds may be borrowed from other governments. Most school board and hospital capital projects are financed directly by the Province of Nova Scotia.

The Corporation partners with the Department of Service Nova Scotia and Municipal Relations as well as municipal units, the Association of Municipal Administrators of Nova Scotia, and other professional associations in the building of financial management capacity in local governments across Nova Scotia.

Administration

The Corporation is governed by a Board of Directors appointed by the Governor-in-Council. The Municipal Finance Corporation Act requires that the Board be comprised of 40 per cent municipal representation. There are currently five Directors on the Board. Two members are senior public servants, two members are appointed upon the recommendation of the Union of Nova Scotia Municipalities, and the fifth member is appointed from the community at large.

The Corporation is self-funded, with the Minister of Service Nova Scotia and Municipal Relations being required to approve the administrative budget. The Corporation levies fees on loans made to its clients to help offset the administrative expenses of the Corporation. These fees, coupled with interest revenue earned by the Corporation on its short term investments, ensure that the Corporation operates in a positive position.

Support staff and resources of the provincial departments of Finance and Service Nova Scotia and Municipal Relations have been provided to the Corporation. The Corporation contracts with the Department of Justice for the provision of legal services. The advice and assistance given by all three provincial departments are a valuable contribution to the operation of the Corporation.

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7th Floor, Provincial Building
1723 Hollis Street
Halifax, Nova Scotia B3J 2N3

Mailing address:
P.O. Box 850, Station "M"
Halifax, Nova Scotia B3J 2V2

Telephone: (902) 424-4590
Fax: (902) 424-0525
Website: www.gov.ns.ca/nsmfc/

Directors and Officers *(as at March 31, 2004)*

Directors of the Corporation

Brian Stonehouse, PEng, Chair
Deputy Minister
Department of Transportation and Public Works

Bruce Hetherington
Councillor
Halifax Regional Municipality

Kevin Malloy, CA
Controller
Nova Scotia Department of Finance

James E. Radford, MBA, CA
Business Consultant, Martins Point, Nova Scotia

Richard G. Ramsay, MPA
Business Consultant, Berwick, Nova Scotia

Officers of the Corporation

Chair
Brian Stonehouse, PEng
Deputy Minister
Department of Transportation and Public Works

Chief Executive Officer and Treasurer
S. Jane Fraser, B.Comm, CGA, MPA

Corporate Secretary
Robert Houlihan, CGA
Municipal Advisor
Department of Service Nova Scotia and Municipal Relations

General Counsel
James B. Isnor, LLB
Senior Solicitor
Department of Justice

Assistant Treasurer
Roy Spence
Director, Liability Management and Treasury
Department of Finance

Directors' Report

Planning for the Corporation is formulated in accordance with clients needs. The Corporation must ensure that it has ready access to capital markets and that it has the financial and administrative capacity to respond to local governments demand for capital infrastructure financing.

The operational context for the Corporation's activities are strongly influenced by the Corporation's ability to

- identify client needs and respond to them
- keep abreast of developments in local government capital finance
- maintain financial self-sufficiency

On an annual basis the Corporation's Board of Directors approve a business plan. The 2003–04 Business Plan reaffirms our mission statement to provide low-cost capital financing for approved projects to municipalities, municipal enterprises, school boards, and hospitals.

Business planning is an evolving process. During the course of the year, outcomes, measures, and indicators are evaluated for effectiveness and responsiveness to the Corporation's longer-term strategic vision. Through the evaluation process outcomes and measures may be changed to ensure that they are within the Corporation's area of responsibility, the Corporation can influence the outcome, and the Corporation's performance can be measured.

Readers will notice that a number of the outcomes and measures that had been included in the 2003–04 Business Plan have been changed to reflect the strategic direction of the Corporation. Some measures have been rolled into an umbrella or over-arching measure of the Corporation performance; other measures are more operational in nature and do not form part of the longer-term strategic direction of the Corporation. These operational measures are important in ensuring that the Corporation can meet its priorities and goals. For that reason the Corporation will continue to report on the operational measures.

Business Plan and Accountability Report

The business plan features four strategic goals, which are identified below. Outcomes, measures, and results are also included.

Strategic Goal 1

To work with clients, the province, and the investment community to provide competitive capital financing to our clients for their particular debt structure and timing needs.

Outcome:
Competitive financing to our clients in a timely and responsive manner

Measures:
Responsiveness of capital markets to MFC debenture issues

Results:
Responded to all client requests in a timely fashion. Debentures issued accommodated all requests for terms and structures.

Operational results:

- Issued 38 loans to 32 municipalities and municipal enterprises.
- Issued $73,117,362 in debentures and on-loaned a similar amount to clients.
- Administered $2,115,000 in short-term financing pending issuance of a debenture.
- Administered $493 million in outstanding debentures which included the payment of debenture interest.
- Administered $493 million in outstanding loans to municipalities, school boards, and hospitals.

Strategic Goal 2

To provide a sustainable source of financing to clients through prudent management of all financial aspects of the Corporation, which includes credit risk and asset/liability management.

Outcome:
Ready access to capital in a timely manner at a competitive rate.

Measure:
Willingness of capital markets to price the MFC's debenture issues at competitive spreads off the Province of Nova Scotia

Results:
Both debenture issues were priced off the Province of Nova Scotia spreads. Pricing spreads for the Corporation are comparable to other municipal financing entities in the Atlantic provinces.

Operational results:
- Reviewed all municipal requests with Service Nova Scotia and Municipal Relations to ensure that the loans to a municipal unit did not pose a credit risk to the Corporation.
- Managed asset and liabilities of the Corporation to mitigate risk and to ensure that the Corporation did not incur any negative carry costs.
- Managed the administration budget of the Corporation prudently; ended the fiscal year with a net income of $42,720.
- Held meetings with the Corporation's lead managers and other members of the investment community, staff of the NS Department of Finance, and other municipal finance corporations, to discuss trends and developments in municipal capital financing.

Strategic Goal 3

To provide flexible and responsive financing products that meet our clients needs and at the same time ensure that the assets of the Corporation remain whole.

Outcome:
A suite of financing products and programs that meet the needs of our clients

Measure:
The number of new products that are offered to municipalities and the take up of the programs by municipalities

Results:
- Partnered with the Federation of Canadian Municipalities in the development of FCM Green Fund agreements for municipalities in Nova Scotia.
- Developed a bridge financing program for municipalities.
- Provided financing under the short-term borrowing program.

Operational Results:
- Administered loans under the Corporation's short-term program.
- Worked with a municipal client on financing options for a large single issue.
- Offered advice and assistance to clients on financing options (term and structure).
- Responded to the information needs of municipalities and the investment community.

Strategic Goal 4

To help build financial management capacity in municipalities that promotes municipal capital project planning and financing.

Outcome:
Municipal governments that have a stronger knowledge base on which to make financial management decisions

Measure:
Interest by municipalities in the development and use of new financing programs.

Results:
Worked with staff of the Service Nova Scotia and Municipal Relations and/or municipal staff to develop responses to municipal capital financing proposals.

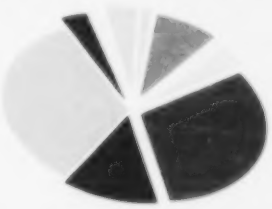
Operational results:
- Established a joint committee with the Association of Municipal Administrators of Nova Scotia for Financial Management Capacity with a commitment of human and financial resources.
- Developed best practises modelled on the Government Finance Officers Association (GFOA) recommended best practises. These best practises have been adapted for use by local governments in Nova Scotia.
- Sponsored finance professionals in a municipal unit to attend the annual GFOA Conference.
- Continued participation on joint committees (municipal and provincial).

Loans to Municipal Units and School Boards

The Corporation's loan portfolio is comprised of loans to municipal units and enterprises that are serviced or guaranteed by Nova Scotia municipalities, and loans to school boards and hospitals that are guaranteed by the province. There are no arrears. The Nova Scotia Department of Service Nova Scotia and Municipal Relations performs the credit check using ministerially approved debt policy guidelines. The Minister approves all capital borrowing requests by municipal units and municipal enterprises. The Corporation's interest rate risk is minimized by matching the interest rates, term, and features of its debenture issues with those on the loans it makes to its clients.

During the year, long-term loans totalling $73,117,362 were made to 29 municipal units and 3 municipal enterprises. They were used for the purposes as shown.

Purpose



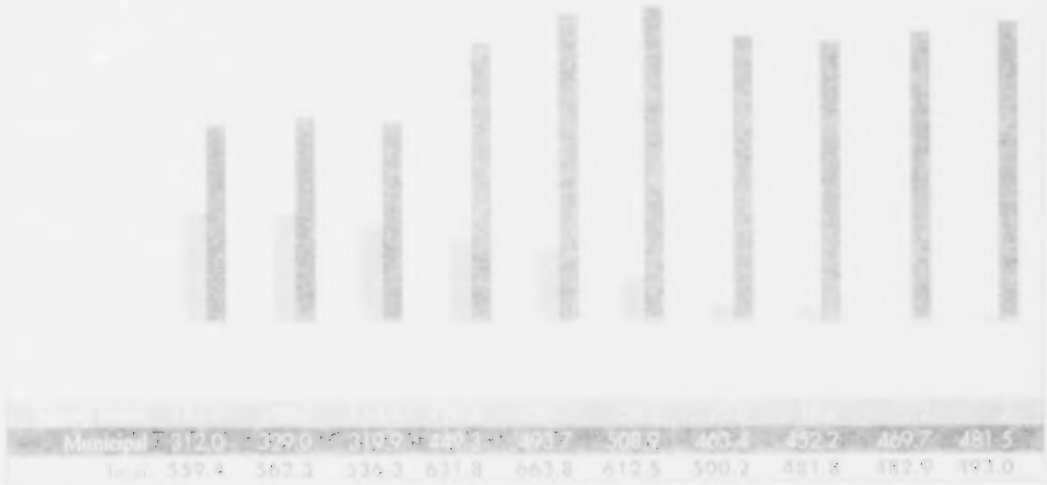
Water	7.9%
Schools	.7%
Sewer	3.6%
Streets	31.9%
Buildings	12.1%
Equipment	33.3%
Recreation	3.4%
Solid Waste	1.6%
Sewage Treatment	4.1%
Other	1.4%

Jurisdiction

Rural	6.1%
Regional	70.6%
Town	20.1%
Municipal Enterprises	3.2%

Purpose	Regionals	Towns	Rural	Municipal Enterprises	Totals	%
Water	$ 0	$ 3,636,133	$ 125,000	$ 2,000,000	$ 5,761,133	7.9%
Schools	0	189,738	324,362	0	514,100	0.7%
Sewer	1,116,258	1,201,547	334,910	0	2,652,715	3.6%
Streets	21,068,154	1,466,150	800,000	0	23,334,304	31.9%
Buildings	3,543,280	5,037,800	95,000	163,700	8,839,780	12.1%
Land	0	0	602,000	0	602,000	0.8%
Electric	0	90,200	0	0	90,200	0.1%
Equipment	22,686,848	1,115,800	360,000	160,000	24,322,648	33.3%
Recreation	2,326,183	157,334	0	0	2,483,517	3.4%
Solid Waste	690,738	165,000	295,000	0	1,150,738	1.6%
Sewage Treatment	0	1,466,000	1,519,395	0	2,985,395	4.1%
Transit	205,832	175,000	0	0	380,832	0.5%
Totals	$51,637,293	$14,700,702	$ 4,455,667	$ 2,323,700	$73,117,362	
Percent	70.6%	20.1%	6.1%	3.2%	100.0%	100.0%

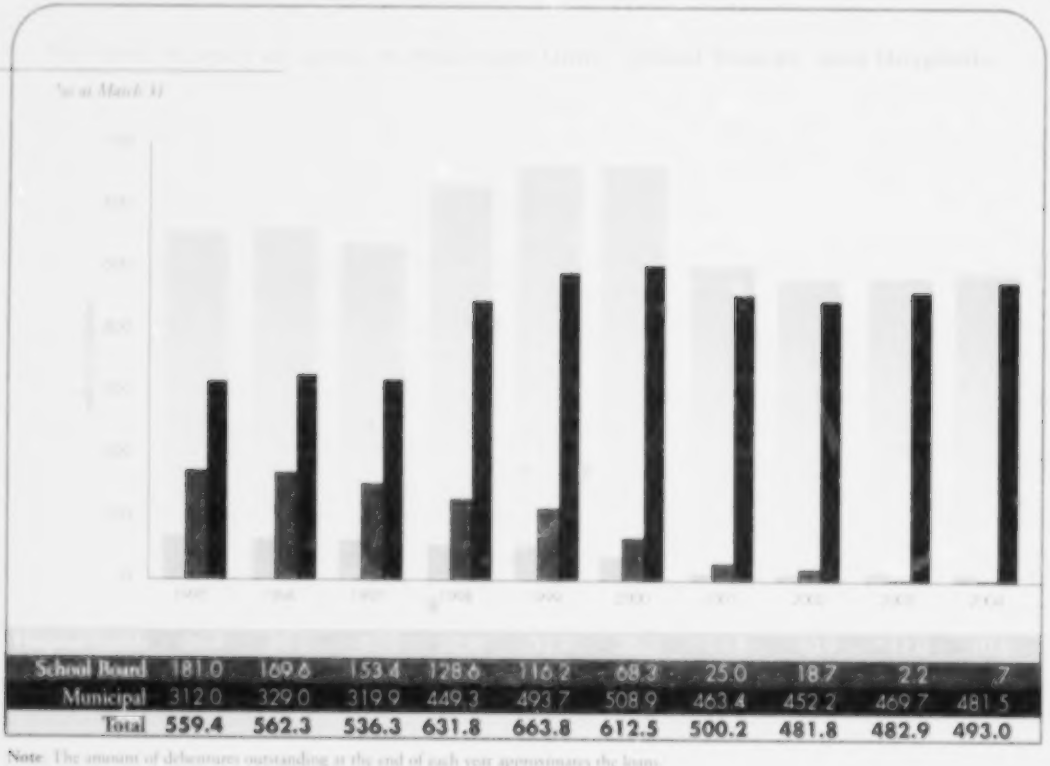
Outstanding Borrowing Program



The accumulated loans outstanding at March 31, 2004, amount to $ 492.9 million, comprising $481.5 million to 69 municipal units and enterprises, $653 thousand to 6 school boards, and $10.8 million to 1 health authority. Effective March 31, 1993, the Province of Nova Scotia assumed all loans related to shareable school and hospital construction. The following chart shows the total loans outstanding at the end of each of the last 10 fiscal years, broken down by category.

Outstanding Borrowing Program

Funds totalling $73.1 million for loans to municipal units and municipal enterprises were raised through two issues in the Canadian domestic market. These issues were placed privately with the Province of Nova Scotia, which purchased a $50.8 million issue in May, 2003, and a $22.2 million issue in October, 2003. Interest rate coupons ranged from 2.75 per cent to 5.75 per cent.



School Board	181.0	169.6	153.4	128.6	116.2	68.3	25.0	18.7	2.2	.7
Municipal	312.0	329.0	319.9	449.3	493.7	508.9	463.4	452.2	469.7	481.5
Total	**559.4**	**562.3**	**536.3**	**631.8**	**663.8**	**612.5**	**500.2**	**481.8**	**482.9**	**493.0**

Note: The amount of debentures outstanding at the end of each year approximates the loans.

Schedule of Outstanding Loans

By Jurisdiction	Principal March 31/03	New Loans	Principal Repaid	Principal March 31/04
Regionals:				
Halifax	$ 239,295,373	$ 43,055,613	($ 37,272,356)	$ 245,078,630
Cape Breton	41,355,273	7,425,000	(7,132,322)	41,647,951
Queens	3,764,090	1,156,680	(464,447)	4,456,323
Total Regionals	**$284,414,736**	**$ 51,637,293**	**($ 44,869,125)**	**$291,182,904**
Loans to Schools and Hospitals	**$ 13,191,170**	**$ 0**	**($ 1,691,640)**	**$ 11,499,530**
Towns:				
Amherst	$3,484,435	$1,272,700	($728,326)	$4,028,809
Annapolis Royal	700,947	163,830	(248,047)	616,730
Antigonish	871,018	0	(102,000)	769,018
Berwick	1,665,768	407,600	(237,221)	1,836,147
Bridgetown	347,833	250,000	(143,076)	454,757
Bridgewater	3,771,967	278,000	(452,711)	3,597,256
Canso	928,638	0	(29,117)	899,521
Clark's Harbour	39,300	0	(13,100)	26,200
Digby	819,960	0	(120,280)	699,680
Hantsport	278,950	185,000	(43,930)	420,020
Kentville	5,917,072	1,087,800	(600,854)	6,404,018
Lockeport	90,000	0	(9,000)	81,000
Lunenburg	661,700	0	(181,350)	480,350
Mahone Bay	529,500	0	(199,700)	329,800
Middleton	923,346	516,000	(130,164)	1,309,182
Mulgrave	411,200	0	(56,240)	354,960
New Glasgow	5,481,367	111,668	(422,677)	5,170,358
Oxford	2,018,284	483,000	(656,776)	1,844,508
Parrsboro	78,174	0	(8,686)	69,488
Pictou	1,341,110	0	(66,300)	1,274,810
Port Hawkesbury	1,110,750	1,050,000	(83,750)	2,077,000
Shelburne	388,050	0	(29,850)	358,200
Springhill	1,181,820	735,000	(102,980)	1,813,840
Stellarton	641,665	356,804	(106,650)	891,819
Stewiacke	812,250	0	(47,250)	765,000
Trenton	330,240	509,800	(102,367)	737,673
Truro	1,500,000	2,860,000	(100,000)	4,260,000
Westville	1,232,740	21,266	(104,867)	1,149,139
Windsor	541,600	1,971,900	(103,100)	2,410,400
Wolfville	4,917,382	607,000	(476,272)	5,048,110
Yarmouth	3,673,400	1,833,334	(770,900)	4,735,834
Total Towns	**$ 46,690,466**	**$ 14,700,701**	**($ 6,477,541)**	**$ 54,913,626**

Schedule of Outstanding Loans

By Jurisdiction	Principal March 31/03	New Loans	Principal Repaid	Principal March 31/04
Rurals:				
Municipalities				
Annapolis	$ 5,067,419	$ 0	($ 508,935)	$ 4,558,484
Antigonish	1,245,833	0	(69,167)	1,176,666
Argyle	25,000	0	(25,000)	0
Barrington	1,244,914	0	(146,518)	1,098,396
Chester	1,912,069	0	(365,267)	1,546,802
Colchester	18,816,998	0	(1,670,166)	17,146,832
Cumberland	1,599,793	236,112	(236,827)	1,599,078
Guysborough	2,731,000	0	(100,500)	2,630,500
Hants East	3,275,046	1,697,000	(228,027)	4,744,019
Hants West	609,331	0	(76,167)	533,164
Inverness	970,000	0	(260,000)	710,000
Kings	8,994,783	495,000	(1,464,308)	8,025,475
Lunenburg	5,766,000	0	(206,300)	5,559,700
Pictou	2,690,171	324,362	(269,416)	2,745,117
Richmond	720,000	0	(80,000)	640,000
Shelburne	34,000	0	(8,500)	25,500
Victoria	2,016,000	0	(129,000)	1,887,000
Yarmouth	922,500	0	(67,500)	855,000
Villages				
Baddeck	272,250	1,009,860	(17,000)	1,265,110
Bible Hill	0	360,000	0	360,000
Chester	165,000	0	(11,000)	154,000
Kingston	321,000	0	(78,500)	242,500
Lawrencetown	34,000	0	(8,500)	25,500
New Minas	475,000	0	(175,000)	300,000
St. Peters	80,000	333,333	(5,000)	408,333
Port Williams	179,000	0	(34,500)	144,500
Westport	38,500	0	(5,500)	33,000
Total Rurals	**$ 60,205,607**	**$ 4,455,667**	**($ 6,246,598)**	**$ 58,414,676**
Municipal Enterprises:				
Braemore Home	$ 102,385	$ 0	($ 51,291)	$ 51,094
Bridgewater Public Service Commission	5,050,000	0	(290,000)	4,760,000
Digby Housing Corporation	688,000	100,000	(19,000)	769,000
Glen Haven Manor	1,056,000	0	(29,500)	1,026,500
Halifax Regional Water Commission	67,574,250	2,000,000	(3,031,250)	66,543,000
Lunenburg Home for Special Care	963,000	0	(16,000)	947,000
R.K. MacDonald	1,627,908	223,700	(206,841)	1,644,767
Seaview Manor	857,500	0	(85,750)	771,750
Villa Acadienne	467,100	0	(40,300)	426,800
Total Enterprises	**78,386,143**	**2,323,700**	**(3,769,932)**	**76,939,911**
Total Loans	**$482,888,122**	**$73,117,362**	**($63,054,836)**	**$492,950,648**

Other Borrowing Programs

The Corporation offers other borrowing programs beyond long-term financing via debenture issue.

The Board of Directors has long supported a short-term borrowing program for its clients. The Corporation's reserve fund is used to provide short-term loans to its clients that have completed their capital project and are awaiting participation in the debenture issue. The terms of the short-term loan are for a period of not greater than one year, interest is charged at a rate of Bank of Montreal's prime lending rate less one per cent (1%).

In addition to the short-term financing program, the Board of Directors have also approved a bridge financing program specific to projects cost shared under the Canada Nova Scotia Infrastructure Works Program (CNSIWP). Under the terms of the CNSIWP agreement financing costs are an ineligible expense for cost sharing purposes. To help offset some of the financing costs of these projects the Corporation offers financing at a rate of bankers acceptance plus 100 basis points.

Acknowledgements

Mr. Rick Ramsay retired from the Board during the year. We wish to thank him for his contribution to the Corporation during his six years on the Board, and welcome Mr. Keith Hunter, Warden of the Municipality of the County of Cumberland, as our newest Director.

We acknowledge the administrative support and co-operation received from the departments of Education, Finance, Health, Justice, and Service Nova Scotia and Municipal Relations. Each of these departments has contributed the services of staff, which provides considerable assistance to the Corporation. The Directors wish to thank the staff of the Corporation for their excellent contribution.

Management's Responsibility for Financial Statements

The financial statements of Nova Scotia Municipal Finance Corporation are the responsibility of management and have been prepared in accordance with PSAB and CICA's accounting principles, which are generally accepted in Canada, applied on a basis consistent with that of the preceding year. The financial information presented elsewhere in the annual report is consistent with the financial statements and the underlying information from which these financial statements were prepared.

The financial statements have been examined independently by the external auditors, Grant Thornton LLP, whose responsibility it is to express an opinion on whether the financial statements are fairly presented in accordance with generally accepted accounting principles. The Auditor's Report, attached to the financial statements, outlines the scope of their examination and contains their opinion.

The financial statements and all information in the annual report have been approved by the Board of Directors. The external auditors have full and free access to the Board, with and without the presence of management, to discuss auditing, internal control, accounting policy, and financial reporting matters.

Auditors' Report to the Directors

To the Directors of
Nova Scotia Municipal Finance Corporation

We have audited the balance sheet of the Nova Scotia Municipal Finance Corporation as at March 31, 2004 and the statements of revenue, expenditure and reserve fund and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Grant Thornton LLP

Grant Thornton LLP
Chartered Accountants
Halifax, Nova Scotia
April 30, 2004

Balance Sheet

March 31, 2004, with comparative figures for 2003

	2004	2003
Assets		
Current Assets:		
Cash	$ 36,715	$ 129,883
Short term investments, at amortized cost (market - $4,187,000; 2003 - $5,461,055) (Note 10)	4,187,000	5,461,055
Accrued interest receivable	10,284,626	10,371,094
Other receivables	331	1,904
Principal due within one year on loans to units	70,303,478	63,054,835
	84,812,150	79,018,771
Long-term Assets:		
Loans to units (Note 3)	492,950,648	482,888,121
Less principal included in current assets	70,303,478	63,054,835
	422,647,170	419,833,286
Investments, at amortized cost (market - $469,731; 2003 - $NIL) (Note 10)	456,414	-
	423,103,584	419,833,286
Deferred Charges:		
Discount on debenture debt	2,616,884	2,562,324
Less accumulated amortization	1,699,284	1,592,606
	917,600	969,718
	$ 508,833,334	$ 499,821,775
Liabilities and Equity		
Current Liabilities:		
Accounts payable	$ 39,428	$ 47,199
Due to municipal units	133,286	1,175,055
Accrued interest payable	10,249,709	10,344,853
Principal due within one year on debenture debt	70,256,012	62,965,496
	80,678,435	74,532,603
Accrued public service awards (Note 9)	65,073	42,573
Long-term Debt		
Debentures payable (Note 5)	492,603,254	482,460,750
Less principal included in current liabilities	70,256,012	62,965,496
	422,347,242	419,495,254
Deferred Credits		
Discount on loans to units	2,611,192	2,557,525
Less accumulated amortization	1,698,785	1,593,637
	912,407	963,888
Equity		
Reserve Fund	4,830,177	4,787,457
	$ 508,833,334	$ 499,821,775

See accompanying notes to the financial statements

On behalf of the Board

Director

Director

Statements of Revenue, Expenditure, and Reserve Fund

March 31, 2004, with comparative figures for 2003

	2004	2003
Revenue		
Interest on loans to units	$ 30,001,901	$ 30,454,163
Amortization of discount on loans to units	251,819	250,185
Interest on short term investments	138,038	147,069
Recovery of issue costs and reserve charge	452,378	609,014
	30,844,136	31,460,431
Expenditure		
Interest on debenture debt and short term loans	29,970,691	30,442,061
Amortization of discount on debenture debt	252,437	252,257
Debenture issue expenses	267,875	373,221
Administrative expenses	310,413	288,964
	30,801,416	31,356,503
Net Revenue	42,720	103,928
Reserve Fund, Beginning of the Year	4,787,457	4,683,529
Reserve Fund, End of the Year	$ 4,830,177	$ 4,787,457

See accompanying notes to the financial statements

Statement of Cash Flows

March 31, 2004, with comparative figures for 2003

	2004	2003
Cash provided by (used for)		
Operations		
Net revenue	$ 42,720	$ 103,928
Add (deduct) items not involving cash		
Amortization of discount on loans to units	(251,819)	(250,185)
Amortization of discount on debenture debt	252,437	252,257
Amortization of premiums on investments	(23,414)	(22,140)
Change in non-cash working capital (Note 8)	(14,874)	(32,022)
Increase in accrued public service award	22,500	17,800
	27,550	69,638
Investments		
Issued loans of $73,117,362 to units on security of debentures, net of discounts of $200,338 (2003 - $95,623,822 net of discounts of $258,491)	(72,917,024)	(95,365,331)
Principal received on loans to units	63,054,835	94,534,811
Principal due to municipal units	133,286	1,175,055
Principal (paid) received on maturing investments	(1,608,055)	608,851
	(11,336,958)	953,386
Financing		
Issue of debentures of $73,108,000, net of Discounts of $200,319 (2003 - $95,624,000 net of discounts of $264,722)	72,907,681	95,359,278
Principal payment on debenture debt	(62,965,496)	(95,335,750)
	9,942,185	23,528
(Decrease) Increase in Cash	(1,367,223)	1,046,552
Cash Position, Beginning of Year	5,590,938	4,544,386
Cash Position, End of Year	$ 4,223,715	$ 5,590,938

Cash position is defined as cash and short-term investments less bank indebtedness. The cash position at year end is made up of the following:

	2004	2003
Cash	$ 36,715	$ 129,883
Short term investments	4,187,000	5,461,055
	$ 4,223,715	$ 5,590,938

See accompanying notes to the financial statements

Notes to the Financial Statements

Year ended March 31, 2004

The Corporation was created by the Municipal Finance Corporation Act which was proclaimed on July 31, 1979. The Corporation began operations on January 1, 1980 and has a March 31 fiscal year-end. The object of the Corporation is to provide financing of approved capital projects for municipalities, municipal enterprises, regional school boards, and hospitals through a central borrowing authority.

1. Summary of significant accounting policies

A) Discounts on debenture debt and loans to units are being amortized over the life of the debentures payable and the loans receivable to which they relate, using the debentures outstanding method.

B) The Reserve Fund was created from accumulated surpluses and interest earnings on funds which had been advanced by the Province of Nova Scotia and interest on other surplus monies. The purpose of the Reserve Fund is to provide a capital base for the Corporation, as well as to provide funds which may be required for administrative purposes and timing differences.

C) Canadian generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management does not anticipate that actual results will differ materially from those estimates.

D) The Corporation recognizes interest income on an accrual basis.

2. Fair values of financial instruments

Financial assets and financial liabilities:
The fair values of cash, accrued interest receivable, other receivables, accounts payable, accrued interest payable and principal due within one year on loans to units and debenture debt are assumed to approximate their carrying amounts because of their short term to maturity. The fair values of investments are assumed to approximate quoted market values as disclosed in the financial statements.

The fair values of the Corporation's loans to units and debentures payable fluctuate with changes in current lending rates, and was not practical to determine. The Corporation's mandated rate of interest charged on loans to units is directly correlated to its cost of borrowing, thereby providing a hedge against equity erosion. As the Corporation normally holds the debentures to maturity, book values of the investments and debentures have not been adjusted to reflect the differences.

It is management's opinion that the Corporation is not exposed to significant interest or credit risks arising from financial instruments.

3. Loans to units

A) Loans to units are made on the security of their debentures, due in annual instalments for periods up to a maximum of twenty years. Interest rates on the loans range from 1.0% to 12.5%. Due to existing provision for the recovery of any defaults by units, an allowance for doubtful accounts is not required.

B) Principal payments receivable in each of the next five years are as follows:

2005	$ 70,303,478
2006	69,947,777
2007	67,427,708
2008	63,967,212
2009	49,924,708

4. Trust funds under administration

The Corporation has no Trust Funds under its administration for the year ended March 31, 2004.

5. Debentures payable

A) The debenture debt outstanding at March 31, 2004 totalling $492,603,254 (2003 - $482,460,750) is in Canadian funds and is fully guaranteed by the Province of Nova Scotia, with the exception of Series "AT" which is a private placement.

Series	Date Issued	Maturity Date	Interest Rate	Debt Outstanding
N	Apr. 2/85	2004 to 2005	12.375-12.500	$ 1,700,000
AG	July 13/94	2004	9.250	3,900,000
AH	Dec. 8/94	2004	9.750	6,950,000
AI*	May 2/95	2004 to 2005	9.000-9.125	6,815,000
AJ	Nov. 14/95	2004 to 2005	8.000-8.125	10,090,000
AK*	May 14/96	2004 to 2006	7.750-8.000	18,969,000
AL	Oct. 28/96	2004 to 2006	7.500	9,095,000
AM*	May 12/97	2004 to 2007	6.750-7.000	26,507,000
AN*	Oct. 17/97	2004 to 2007	5.750-6.250	23,091,000
AP*	Jan. 30/98	2005 to 2019	5.625-6.125	37,374,000
AQ	May 15/98	2004 to 2008	5.250-5.500	21,227,000
AR*	Dec. 1/98	2004 to 2008	5.375-5.625	31,176,000
AS*	May 17/99	2004 to 2009	5.125-5.375	27,269,000
AT	May 28/99	2004 to 2015	1.000	2,025,000
AU*	Dec. 22/99	2004 to 2009	6.500-6.750	27,093,000
AV*	June 1/00	2004 to 2010	6.625-6.875	18,355,000
AW*	Nov. 9/00	2004 to 2010	6.125-6.375	18,853,000
AX*	May 29/01	2004 to 2011	5.250-6.250	25,234,000
AY*	Nov. 7/01	2004 to 2011	4.250-6.000	15,836,000
AZ*	May 15/02	2004 to 2012	4.250-6.125	48,440,000
BA*	Nov. 7/02	2004 to 2017	3.625-6.000	28,650,000
BB*	Jan. 9/03	2004 to 2023	5.913	10,846,254
BC *	May 28/03	2004 to 2018	3.500-5.750	50,887,000
BD *	Oct. 15/03	2004 to 2018	2.750-5.375	22,221,000
				$ 492,603,254

* *Placed directly with the Province of Nova Scotia.*

Interest is payable semi-annually, except for Series "AT", which is payable annually.

B) Principal payments due in each of the next five years are as follows:

2005	$ 70,256,012
2006	69,909,289
2007	67,153,723
2008	63,943,383
2009	49,916,342

6. Payment of Provincial portion of Reserve Fund Province of Nova Scotia

In fiscal 1998-1999 the Corporation transferred $1,500,000 of the Reserve Fund to the Province of Nova Scotia. This amount represented the Province's share of the Reserve Fund. The basis for this calculation was the portion of total Nova Scotia Municipal Finance Corporation loans made since its inception that were made to schools and hospitals. In exchange for the $1,500,000 payment, the Province recognized the remainder of the Reserve as the Municipal portion.

7. Taxes

The Corporation is not subject to provincial or federal taxes.

8. Change in non-cash working capital

	2004	2003
Accrued interest receivable	**$ 86,468**	$ 822,241
Other receivables	**1,573**	367
Accounts payable	**(7,771)**	(18,906)
Accrued interest payable	**(95,144)**	(835,724)
	$ (14,874)	$ (32,022)

9. Public service awards

As at March 31, 2004, the Corporation has recorded a liability in the amount of $65,073 in respect of the provincial public service award for the employees of the Corporation.

10. Investments

The Corporation holds short-term and long-term investments. The investments mature at various intervals during 2004 and 2005, the interest rates for these investments range from 2.18% to 8.125%.